

Commerce Bancshares, Inc.
Compliance Department, TB12-1
922 Walnut; P.O. Box 13686
Kansas City, MO 64199-3686

Docket Number: R-1202

July 22, 2004

via e-mail to:
regs.comments@federalreserve.gov

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Madam:

Commerce Bancshares, Inc. is a registered bank holding company with total assets of \$14.4 billion at June 30, 2004, and four bank subsidiaries. Three of these banks are full-service banks, with approximately 200 branch locations in Missouri, Illinois, and Kansas. The other bank is a limited-purpose bank, with one office in Omaha, Nebraska. All of the banks are national banks.

The Federal Reserve has asked for comments regarding the proposed rule amending subpart A of Regulation J. The proposal would add two new paragraphs to § 210.5(a)(5) that would allow the Reserve Bank, in certain circumstances, to pass back losses to the sender bank, that the Reserve Bank incurs in connection with these indemnities.

Commerce Bank stands ready, under a bi-lateral agreement, to indemnify the Reserve Bank when an image replacement document (IRD) is printed from a data file provided by us, presented on our behalf and the data we provided was incorrect. However, we should not be required to warrant Reserve Bank print activity that is beyond our control. An error at the Reserve Bank could cause a warranty breach on an IRD, despite the fact that our file contained all of the information required to print the document correctly. For example, a printer jam that was not properly handled could easily result in an IRD that did not contain all of the required and correct information. Under these circumstances, we should have no liability for the Reserve Bank's operational error.

The proposal makes no allowance for errors on the part of the Reserve Bank and therefore unjustly shifts liability to the presenting bank. We respectfully request that the Board review and revise the proposed regulatory language, or issue definitive staff commentary addressing the issue.

Thank you for providing the opportunity to comment.

Sincerely,

Katherine A. D. Foster, JD
Compliance Research Manager